

AVISTA CORP
Form DEF 14A
March 31, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under §240.14a-12

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AVISTA CORPORATION

(Name of registrant as specified in its charter)

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(Name of person(s) filing proxy statement, if other than the registrant)

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Prompt execution of the enclosed proxy will save the expense of an additional mailing.

Your immediate attention is appreciated.

March 31, 2011

Dear Shareholder:

On behalf of the Board of Directors, it is my pleasure to invite you to the 2011 Annual Meeting of Shareholders. The doors open at 7:30 a.m. and the meeting will begin promptly at 8:15 a.m.

| | | | |
|------|--|--------|-----------------------------|
| Date | Thursday, May 12, 2011 | Place: | Avista Main Office Building |
| Time | 7:30 a.m. Doors Open | | Auditorium |
| | 7:45 a.m. Refreshments | | 1411 E. Mission Avenue |
| | 8:15 a.m. Annual Meeting Convenes | | Spokane, Washington |

Information about the nominee for election as a member of the Board of Directors and other business of the meeting is set forth in the Notice of Meeting and the Proxy Statement on the following pages.

Please take the opportunity to review the Proxy Statement and 2010 Annual Report. Your vote is important regardless of the number of shares you own. Whether or not you plan to attend the Annual Meeting in person, we urge you to vote and submit your proxy by mail, telephone, or the Internet as promptly as possible. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card, and return it in the envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. If you hold shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares. Voting your proxy ahead of time will allow for a more efficient and timely meeting.

For your convenience, we are pleased to offer an audio webcast of the Annual Meeting if you cannot attend in person. If you choose to listen to the webcast, go to www.avistacorp.com shortly before the meeting time and follow the instructions for the webcast. You can also listen to a replay of the webcast, which will be archived at www.avistacorp.com for one year.

Thank you for your continued support.

Sincerely,

Scott L. Morris

Chairman of the Board,

President & Chief Executive Officer

Avista Corporation 1411 E. Mission Ave. Spokane, Washington 99202

Investor Relations (509) 495-4203

If you require special accommodations at the Annual Meeting due to a disability, please call our

Investor Relations Department by April 15.

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AVISTA CORPORATION

1411 East Mission Avenue

Spokane, Washington 99202

NOTICE OF ANNUAL MEETING

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE
SHAREHOLDER MEETING TO BE HELD ON THURSDAY, MAY 12, 2011**

This proxy statement and the 2010 Annual Report are available on the Internet at

<http://proxyvote.com>

Date: Thursday, May 12, 2011

Time: 8:15 a.m., Pacific Time

Place: Avista Main Office Building Auditorium

1411 E. Mission Avenue, Spokane, Washington

Record Date: March 11, 2011

- Meeting Agenda:**
- 1) Election of one director.
 - 2) Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2011.
 - 3) Amendment of the Company's Restated Articles of Incorporation and Bylaws to provide for the annual election of the Board of Directors. The Board recommends a vote **FOR** this proposal.
 - 4) Advisory (non-binding) vote on executive compensation. The Board recommends a vote **FOR** this proposal.
 - 5) Advisory (non-binding) vote on the frequency of an advisory vote on executive compensation. The Board recommends a vote to conduct such future advisory votes every year.
 - 6) If presented, consideration of a shareholder proposal to request the Board to take the steps necessary so that each shareholder voting requirement in the Articles of Incorporation and Bylaws that calls for a greater than a simple majority vote be changed to a majority of votes cast **for** or **against** the proposal in compliance with applicable laws. The Board recommends a vote **AGAINST** this proposal.
 - 7) Transaction of other business that may come before the meeting or any adjournment(s).

All shareholders are cordially invited to attend the meeting in person. Shareholders who cannot be present at the meeting are urged to vote and submit their proxy by mail, telephone, or the Internet as promptly as possible. Please sign and date the proxy card and return it promptly or cast your vote via telephone or the Internet in accordance with the instructions on the proxy card and/or proxy notice.

By Order of the Board,

Karen S. Feltes

Senior Vice President & Corporate Secretary

Spokane, Washington

March 31, 2011

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AVISTA CORPORATION

1411 East Mission Avenue

Spokane, Washington 99202

PROXY STATEMENT

FOR THE ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 12, 2011

GENERAL

Your vote is important. Whether or not you plan to attend the Annual Meeting in person, we urge you to vote and submit your proxy by mail, telephone, or the Internet as promptly as possible. If you are submitting your proxy by mail, you should complete, sign, and date your proxy card, and return it in the envelope provided. If you plan to vote by telephone or the Internet, voting instructions are printed on your proxy card and/or proxy notice. If you hold your shares through an account with a brokerage firm, bank, or other nominee, please follow the instructions you receive from them to vote your shares.

Please note that under the New York Stock Exchange (NYSE) rules, brokerage firms generally have the authority to vote shares when their customers do not provide voting instructions. However, with respect to certain specified matters, when the brokerage firm does not receive instructions from its customers, the brokerage firm cannot vote shares on those matters. This is called a broker non-vote. Matters on which brokers may not vote without instructions include the election of directors and matters relating to executive compensation. This means that brokers may not vote shares on Proposals 1, 4 and 5 if you have not given your broker instructions on how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

At the close of business on the record date, March 11, 2011, there were 57,482,848 shares of Company common stock outstanding and entitled to vote at the Annual Meeting. Shares represented at the meeting by properly executed proxies will be voted at the meeting. If the shareholder specifies voting instructions, the shares will be voted as indicated. A proxy may be revoked at any time prior to the Annual Meeting.

VOTING

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Holders of Company common stock, the Company's only class of securities with general voting rights, will be entitled to one vote per share. Under Washington law, action may be taken on matters submitted to shareholders only if a quorum is present at the meeting. The presence at the Annual Meeting in person or represented by proxy of holders of a majority of the shares of the Company's common stock outstanding on the record date will constitute a quorum. Subject to certain statutory exceptions, once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting.

In the election of directors, a nominee will be elected if the number of votes cast for exceeds the number of votes against. Abstentions or broker non-votes will have no effect on the election of that director. If no instructions are given on a proxy with respect to this proposal, the holders of the shares represented by that proxy will be deemed to abstain from voting on this proposal. Shareholders may not cumulate votes in the election of directors. If an incumbent director does not receive a majority of votes cast with respect to his/her re-election in an uncontested election, he/she would continue to serve a term that would terminate on the date that is the earliest of (i) the date of the commencement of the term of a new director selected by the Board of Directors (Board) to fill the office held by such director, (ii) the effective date of the resignation of such director or (iii) the date of the 2012 Annual Meeting of Shareholders (or, if Proposal 3 is approved, December 31, 2011).

Proposal 2, the proposal for ratifying the appointment of the firm of Deloitte & Touche LLP as the independent registered public accounting firm of the Company for 2011, will be approved if the number of votes duly cast in

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favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting will have no impact on the outcome of this proposal. If no instructions are given on a proxy with respect to this proposal, the shares represented by that proxy will be voted for this proposal.

Proposal 3, the proposal for amending Article FIFTH of the Restated Articles of Incorporation to allow for the annual election of directors, will be approved upon the affirmative vote of the holders of 80% of the issued and outstanding shares of common stock. Abstentions from voting will have the same impact as negative votes. If no instructions are given on a proxy with respect to this proposal, the shares represented by that proxy will be voted for this proposal.

Proposal 4, the advisory (non-binding) vote on executive compensation, will be approved if the number of votes cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstentions from voting and broker non-votes will have no impact on the outcome of Proposal 4. If no instructions are given on a proxy with respect to this proposal, the shares represented by that proxy will be voted for this proposal.

With respect to Proposal 5, relating to the frequency of the advisory (non-binding) vote on executive compensation, the frequency (every one, two or three years) receiving the greatest number of votes will be the frequency recommended by shareholders. Abstentions from voting and broker non-votes will have no impact on the outcome of Proposal 5. If no instructions are given on a proxy with respect to this proposal, the shares represented by that proxy will be voted for an annual advisory (non-binding) vote on executive compensation.

Proposal 6, the shareholder proposal requesting that the Board take the necessary action so that each shareholder voting requirement in the Articles of Incorporation and Bylaws that calls for a greater than a simple majority vote be changed to a majority of votes cast for or against the proposal in compliance with applicable laws, will be approved if the number of votes cast in favor of this proposal exceeds the number of votes cast against the proposal. Abstention from voting will have no impact on the outcome of this proposal. If no instructions are given on a proxy with respect to this proposal, the holders of the shares represented by that proxy will be voted against this proposal.

CORPORATE GOVERNANCE MATTERS

Corporate Governance Principles

The Board has long adhered to governance principles designed to assure the continued vitality of the Board in the execution of its duties. The Board has responsibility for management oversight and providing strategic guidance to the Company. The Board believes that it must continue to renew itself to ensure that its members understand the industries and the markets in which the Company operates. The Board also believes that it must remain well-informed about the positive and negative issues, problems and challenges facing the Company and markets so that the Board members can exercise their fiduciary responsibilities to the Company's shareholders.

Board Leadership Structure

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For most of the Company's history, the Chief Executive Officer (CEO) has also served as Chairman of the Board (Chairman). The Board does not have a policy as to whether the role of CEO should be separate from that of Chairman, nor, if the roles are separate, whether the Chairman should be selected from the independent directors or should be an employee of the Company. The Board selects the Chairman in a manner that it determines to be in the best interests of the Company and its shareholders. This flexibility has allowed the Board to determine whether the role should be separated based on the individuals and the circumstances existing at that time.

During the past 60 years, the positions of CEO and Chairman have not been separated except for on one occasion during 2000-2001. The Board believes that the Company has been well served by this leadership structure. The

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separation of the Chairman and the CEO could introduce a complex new relationship into the center of the Company's corporate governance structure. Having a single leader for both the Company and the Board eliminates the potential for confusion or duplication of efforts and provides clear leadership for the Company, the Board and the markets. Having a single person serve as Chairman and CEO, at this time, provides unified and responsible leadership and is the right form of leadership for the Company and the Board.

The Board has examined the questions of the separation of the positions of the Chairman and the CEO and the independence of the Chairman. The Board concluded that it should not have a rigid policy as to these issues but, rather, should consider them, together with other relevant factors, to determine the right leadership structure. The Board believes that it needs to retain the ability to balance the independent Board structure with the flexibility to appoint as Chairman someone with hands-on knowledge of and experience in the operations of the Company. The Board periodically examines its governance practices, including the separation of the offices of Chairman and CEO.

The Company is led by Scott L. Morris, who has served as its Chairman, President and CEO since 2008. The Board is strengthened by the presence of Mr. Morris. Given the issues facing the Company and the possible technological, regulatory and legislative changes that may occur in the industry, the Board believes that Mr. Morris provides strategic, operational, and technical expertise and context for the matters considered by the Board.

The Board has also established the position of an independent Lead Director. John F. Kelly was re-elected by the independent directors in 2010 to serve as Lead Director for a three-year term. The Lead Director's duties include:

maintaining an active, ongoing, positive and collaborative relationship with the Chairman and the CEO and keeping an open line of communication that provides for dissemination of information to the Board and discussion before actions are finalized;

serving as primary liaison between independent directors and the Chairman and CEO;

presiding at all meetings at which the Chairman is not present, including executive sessions of the independent directors held at each regularly scheduled Board meeting;

calling meetings of the independent directors when necessary and appropriate; and

collaborating with the Chairman regarding the meeting schedules and agendas for the Board meetings, including adding or changing the agenda and soliciting input from the other independent directors on items for the Board agendas, to ensure that appropriate agenda items are included and that there is adequate time for discussion of agenda items.

The Lead Director is available for communications and consultation with major shareholders. The Company has a mechanism for shareholders to communicate with the Lead Director, non-management directors as a group, or on an individual basis. (See Communications with Shareholders on page 7.)

The Board has been, and continues to be, a strong proponent of Board independence. As a result, the Company's corporate governance structures and practices provide for a strong, independent Board and include several independent oversight mechanisms. The Board believes this governance structure and these practices ensure that strong and independent directors will continue to effectively oversee the Company's management and key issues related to its long-range business plans, long-range strategic issues, risks and integrity. The Board is comprised of

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Mr. Morris and eight independent directors. The Board has five standing independent Committees with separate independent Chairs: Audit Committee, Compensation & Organization Committee (Compensation Committee), Corporate Governance/Nominating Committee (Governance Committee), Finance Committee and Energy, Environmental & Operations Committee (Environmental Committee) see Committee descriptions below. All members of these Board Committees are independent. In addition, all Board Committees may seek legal, financial or other expert advice from a source independent from management.

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Director Independence

It is the policy of the Board that a majority of the directors will be independent from management and that the Board will not engage in transactions that would conflict with the Company's business. Independence determinations are made on an annual basis at the time the Board approves nominees for election at the next Annual Meeting and, if a director joins the Board between Annual Meetings, at such time. To assist in this determination, the Board adopted Categorical Standards for Independence of Directors (Categorical Standards).

During its annual review, the Board considered transactions and relationships between each director or any member of his/her family and the Company and its subsidiaries and affiliates, including those reported under Related Party Transactions below. The Board also considered whether there were any transactions or relationships between directors or any member of their immediate family (or any entity of which a director or an immediate family member is an executive officer, general partner, or significant equity holder) and members of the Company's senior management or their affiliates. The purpose of the review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that the director nominated for election at the Annual Meeting and each of the continuing directors are independent of the Company and its management under the Categorical Standards, adopted by the Board, with the exception of Mr. Morris, who is considered an inside director because of his employment as President and CEO of the Company.

Related Party Transactions

The Board recognizes that related party transactions present a heightened risk of conflicts of interest and/or improper valuation (or the perception thereof) and, therefore, has adopted a Related Party Transaction Policy, which will be followed in connection with all related party transactions involving the Company and specified related persons that include directors (including nominees) and executive officers, certain family members and certain shareholders, all as outlined in the applicable Securities and Exchange Commission (SEC) rules.

SEC rules require that the Company disclose any related party transaction in which the amount involved exceeds \$120,000 in the last year. The Governance Committee has determined that the Company has no related party transactions that were reportable for 2010.

In making its determination, the Board considered the following relationships, which it determined were immaterial to the director's independence. The Board considered that the Company and its subsidiaries in the ordinary course of business have during the last three years purchased products and services from companies at which some of our directors were officers, board members, or investors during 2010.

Mr. Anderson's company has an investment in a company that provides web design services. Prior to the time Mr. Anderson's company made its investment, the Company had entered into a contract with the web design company. There were no payments made to the web design company in 2010 and the amounts paid in prior years when Mr. Anderson's company held its investment were disclosed appropriately when the threshold amount in the Categorical Standards was exceeded.

Mr. Racicot is a Board member of The Washington Companies and one of its subsidiaries, Modern Machinery, sells and rents high quality heavy equipment and provides product support to the construction, mining, and forestry industries. The Company has

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contracted with Modern Machinery to provide machinery to the Company. The amount paid to that company in 2010 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

Ms. Stanley is co-owner and Chair of the Board of a company that had for many years prior to the date Ms. Stanley became a director, sold hardware supplies to the Company in arm's length transactions. The amount paid to that company in 2010 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

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Mr. Taylor is a Board member of a corporation, which owns and operates radio stations in Idaho, Washington and Oregon. In 2010, the Company's ad agency purchased radio advertisements on those stations. The amount paid to that company in 2010 or in any of the prior three years did not exceed the threshold amount in the Categorical Standards.

Board Meetings

The Board held six meetings in 2010. The attendance at all Board meetings and at all Board Committee meetings was 96.7%. The Board strongly encourages its members to attend all Annual Meetings of Shareholders. All directors attended the prior year's Annual Meeting of Shareholders and are planning to attend the 2011 Annual Meeting.

Meetings of Independent Directors

The independent directors meet at each regularly scheduled Board meeting in executive session without management present. The Lead Director chairs the executive sessions. The Lead Director establishes the agenda for each executive session, and also determines which, if any, other individuals, including members of management and independent advisors, should be available for each such meeting.

Duties of Chairman of the Board

The Chairman's duties include chairing all meetings of the Board in a manner that effectively utilizes the Board's time and which takes full advantage of the expertise and experience that each director has to offer; establishing an agenda for each Board meeting in collaboration with the Lead Director, with input from other directors and management; and providing input and support to the Chair of the Governance Committee on the selection of members and Chairs of the various Board Committees, on the establishment of the Governance Committee meeting agendas, on compensation philosophy for the Board, and candidates for Board membership. The Chairman is also accountable to, and provides leadership for, all issues of corporate governance that should come to the attention of the Chair of the Governance Committee and the full Board. He also ensures that the Board is provided with full information on the condition of the Company, its businesses, the risks facing the Company, and the environment in which it operates; and facilitates and encourages constructive and useful communication between the Board and management. The Chairman also recommends an agenda to the Board for its approval for each shareholder meeting; provides leadership to the Board in the establishment of positions that the Board should take on issues to come before the Annual Meeting; and presides at all shareholder meetings.

Committees

Each Committee of the Board has adopted a Charter that has been approved by the Board. The Charters are reviewed on a periodic basis and amendments are made as needed. Each Committee also performs an annual self-assessment relative to its purpose, duties, and responsibilities. The Committee Charters are located on the Company's website at www.avistacorp.com. A written copy of our Committee Charters will be provided free of charge to any person upon request to the General Counsel's office at 1411 East Mission Avenue, P.O. Box 3727 (MSC-12), Spokane, Washington 99220.

Audit Committee Assists the Board in overseeing the integrity of and the risks related to the Company's financial statements, the Company's compliance program dealing with legal and regulatory requirements, the qualifications and independence of the independent registered public

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accounting firm, the performance of the Company's internal audit function and independent registered public accounting firm, and the Company's systems of internal controls regarding accounting, financial reporting, disclosure, legal compliance and ethics that management and the Board have established, including without limitation all internal controls established and maintained pursuant to the Securities Exchange Act of 1934 (the Exchange Act) and by the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The Audit Committee oversees the Company's risk assessment and risk

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management processes and the business continuity process. Only independent directors sit on the Audit Committee. During 2010, the Audit Committee consisted of directors Eiguren, Noël, Stanley, and Blake Chair. The Board has determined that Mr. Noël is an Audit Committee Financial Expert, as defined in the SEC rules. Eight meetings were held in 2010. Mr. Eiguren submitted his resignation from the Board effective February 5, 2011.

Governance Committee Advises the Board on corporate governance matters and oversees the risks relating to such matters including recommending guidelines for the composition and size of the Board, evaluating Board effectiveness and organizational structure and setting director compensation (see the section on Director Compensation on page 49 for further information). This Committee also develops Board membership criteria and reviews potential director candidates. Recommendations for director nominees are presented to the full Board for approval. Director nominations by shareholders may be submitted in accordance with the procedures set forth under Director Qualifications and Process for Selecting Board Nominees below. Only independent directors sit on this Committee. The Governance Committee consists of directors Blake, Taylor and Kelly Chair. Five meetings were held in 2010.

Compensation Committee Is responsible for considering and approving, as well as overseeing the risks associated with, compensation and benefits of executive officers of the Company. It is also responsible for overseeing the organizational structure of the Company and succession planning for the CEO and the executive officers.

For a discussion of the Company's processes and procedures for the consideration and determination of executive officer compensation (including the role of executive officers and compensation consultants in determining or recommending the amount or form of compensation) see Compensation Discussion and Analysis starting on page 19.

The Compensation Committee is composed of independent directors as defined by the rules of the NYSE, and, in addition, complies with the outside director requirements of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and the non-employee director requirements of Rule 16b-3 under the Exchange Act.

The Compensation Committee consists of directors Kelly, Klein, Noël and Taylor Chair. Five meetings were held in 2010.

Finance Committee Strives to ensure that corporate management has in place strategies, budgets, forecasts, and financial plans and programs, including adequate liquidity, to enable the Company to meet its goals and objectives and oversees the associated risks. The Finance Committee's activities and recommendations include reviewing management's qualitative and quantitative financial plans and objectives for both the short and long-term; approving strategies with appropriate action plans to help ensure that financial objectives are met; having in place a system to monitor progress toward financial goals, including monitoring commodity price and counterparty credit risk, as well as taking any necessary action; and overseeing and monitoring employee benefit plan investment performance and approving changes in investment policies, managers, and strategies. Only independent directors sit on this Committee. The Finance Committee consists of directors Racicot, Stanley and Anderson Chair. Five meetings were held in 2010.

Environmental Committee Assists the Board in overseeing risks associated with the Company's legal and regulatory compliance in its operations including environmental compliance, energy resources, transmission and distribution operations, employee safety performance, and corporate security. Only independent directors sit on this Committee. During 2010, the Environmental Committee consisted of directors Anderson, Klein, Racicot and former director Roy L. Eiguren Chair. Mr. Eiguren submitted his resignation from the Board effective February 5, 2011. Four meetings were held in 2010.

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